
Finance Committee

HB 3120

Brief Description: Providing a sales and use tax exemption for environmentally certified residential and commercial construction.

Sponsors: Representatives Rolfes, Morrell, Lias and Williams.

Brief Summary of Bill

- Exempts from state retail sales/use tax a portion of the tax paid on eligible commercial or residential structures which qualify as environmentally certified buildings.

Hearing Date: 2/4/08

Staff: Don Taylor (786-7388).

Background:

Washington's major tax is the state retail sales tax and its companion use tax. Together, these comprise approximately 47 percent of all state tax receipts. In addition, local sales/use taxes are a major source of revenue for cities, counties and other types of local taxing districts.

The sales tax applies to purchases for which the buyer actually uses the item or service (i.e., not for direct resale); use tax applies to items upon which the retail sales tax was not paid (e.g., items purchased out of state or from nonretail vendors). Most purchases of tangible personal property, including items used by businesses, are subject to the tax. Some services such as construction and repair of tangible personal property are subject to the tax; however, the majority of personal and profession services are not taxable. A variety of specific exemptions apply to certain types of goods; e.g., manufacturing machinery and motor vehicle fuel, or to specified type of purchasers; e.g., the American Red Cross.

The state levies a sales/use tax rate of 6.5 percent; local sales/use tax rates now range from 0.5 to 2.4 percent. Starting in April, 2008, the highest combined rate in the state will be 9.0 percent.

In the case of contract construction done for an owner of real property, the retail sales tax applies to the full price of the contract, including materials, labor and service. For "spec" building, when

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

the builder owns the land upon which a structure is being constructed or remodeled, the builder pays retail sales/use tax upon the materials to be incorporated into the structure, but there is no tax on labor and services.

Summary of Bill:

Starting on July 1, 2010, the state retail sales and use tax would not apply to a portion of qualified residential or commercial construction which takes place in eligible cities or counties. To qualify, the construction must occur in a local jurisdiction which has adopted: (1) an expedited building process for construction of environmentally certified buildings; and (2) low-impact development regulations, pursuant to regulations of the Department of Ecology. Further, if the construction is for a single or multi-family residential structure, the selling price may not exceed the median price for this type of home in the same jurisdiction during the previous month, according to a recognized real estate listing service.

The term "environmentally certified building" is defined as: (1) one with a silver, gold or platinum rating under the Leadership in Energy and Environmental Design Green Building Rating System; (2) one with a four or five star rating under the Washington Built Green Program; or (3) an equivalent sustainable building, according to rules of the Department of Revenue (Department).

The exemption is to be claimed as a remittance from the state tax, which means that persons would continue to pay sales tax to vendors on their purchases and then submit a claim to the Department for remittance of the state tax. Local sales taxes are not impacted by this legislation.

The amount of the remittance is subject to a percentage of the amount of sales/use tax paid upon eligible construction. The applicable percentage of the state tax eligible for remittance is:

expenditures during Fiscal Year 2011	-	50 percent
expenditures during Fiscal Year 2012	-	40 percent
expenditures during Fiscal Year 2013	-	30 percent
expenditures during Fiscal Year 2014	-	20 percent
expenditures during Fiscal Year 2015	-	10 percent

The remittance program expires on July 1, 2015.

The Department is directed to report to the Legislature on the utilization of the remittance program. The Department shall indicate the amount of sales/use tax exempted under the remittance program and the type and location of property constructed under the program. In addition, the Department shall estimate the cost savings and reduction in emissions achieved. Reports are due by December 1, 2012; December 1, 2013; and December 1, 2014.

Appropriation: None.

Fiscal Note: Requested on January 28, 2008.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.